

a. Reinsurer's obligations to cover underlying claims, determining a guaranteed payment rate of the claims, indemnifying at least a portion of the Insurance Company's liability for the claims at the guaranteed rate, and assigning the assets and Reinsurer's obligations to an Indemnifying Agent.

REMARKS

Claims 1-11 are pending in the application. The applicants request that the Examiner's notation of pending claims on the first page of the Office Action be corrected.

Objections:

In the Office Action, the Examiner objected to the Abstract. The amended abstract above removes the objected language and should now be acceptable.) OK

Also, the Examiner objected to Claims 1 and 10 due to informalities. In claim 1, line 8, applicants point out that the term "said values" includes antecedent support at line 4, which should be clear as it is the only preceding occurrence of the term "values" in claim 1. In claim 10, line 2 of subparagraph (g) applicants agree that there is a typographical error in that the underline should be removed from under the word "at." The Examiner is hereby authorized to undertake an Examiner's amendment to make this correction.) OK - This CO's assets & liabilities
) no - need to do it formally (not in spec)

Claim Rejections:

The Examiner rejected claims 1-10 under 35 USC 103(a) as being obvious over McCormack et al., US 6,049,773, in view of either Hammond et al., US 5,613,072, or Roberts et al., US 4,839,804, or Kelly et al., US 5,806,042, or Butler et al., "The International Journal of Insurance Law." The Examiner has not identified Claim 11 as

pending in the application. Claim 11 depends from Claim 10, which the Examiner rejected.

However, as the Examiner's rejection is in the form of a general rejection not specific to any individual claim but addressing all claims 1-10 as a group, then for the purposes of this response, the applicants take the Examiner's rejection to also apply to Claim 11.) ok go to d

Clarification is requested. This rejection is traversed for the reasons stated below.

Before addressing the merits of the rejections, applicants believe that the Examiner may not have clearly understood the scope of the applicant's invention, as claimed.

Therefore, the Examiner's attention is directed to the applicant's summary of invention on pages 3-4, which is reproduced here to help elucidate certain aspects of the invention.

A method for reinsuring an insolvent Insurance Company's liabilities is provided. In one aspect, the method includes estimating values of the Insurance Company's assets and liabilities, guaranteeing the payment of a percentage of a loss to insureds as a function of said values in the form of a dividend from the insolvent Insurance Company (without the right of the insolvent Insurance Company to demand repayment), and obtaining rights to the assets of the insolvent Insurance Company. In another aspect, the method includes determining the shortfall of the Insurance Company's assets and Reinsurer's obligations to cover underlying claims, determining a guaranteed payment rate of the claims, indemnifying at least a portion of the Insurance Company's liability for the claims at the guaranteed payment rate, and assigning the assets and insolvent Insurance Company's obligations to an Indemnifying Agent.

These methods have the following advantages: they guarantee claimants a prompt dollar certain payment on allowed claims that may substantially exceed, on a present value basis, the amount received under the currently used system of insurance company liquidation; and they transfer the risk and uncertainty regarding the amount of future loss development and uncollectible assets to the Indemnifying Agent. The methods also potentially reduce litigation over liquidation orders in a way that would be endorsed both by claimants and Insurance Companies alike. The methods also permit the orderly collection of the assets of the insolvent Insurance Company (which often consists of reinsurance which is due to be paid solely at the time the amount of the loss is determined in an NOD). Finally, the methods shift the risks of any future inefficient and inadequate estate administration to a new Deputy Liquidator.) admission

While the above summary may be helpful for gaining a quick understanding of different embodiments of the invention and its advantages, the applicants point out, however, that it is not the summary but the claims which define the scope of the invention. The applicants submit that independent Claims 1, 4 and 10, which define the scope of different aspects of the presently claimed invention, include steps not disclosed in the cited references. Claim 1 includes the step of guaranteeing a fixed dividend to claimants of an insolvent insurance company. Claim 4 includes the step of determining a guaranteed payment rate and indemnifying payment of claims against the insolvent insurance company at that guaranteed rate. Claim 10 includes the step of calculating a guaranteed payment rate and indemnifying the claims at that guaranteed rate. Each claim also requires a transfer of at least a portion of the insolvent insurance company's assets in exchange for that guarantee of payment. In effect, as described above, the claimed methods transfer the risk and uncertainty regarding the amount of future loss development and uncollectible assets of the insolvent insurance company to the party guaranteeing the payments to the claimants.

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out for accuracy

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The Examiner rejected these claims over the combination of McCormack et al. and other references. With regard to McCormack et al., the Examiner asserted that McCormack et al. discloses "paying insolvent insurance company's liabilities" and "the general aspects of reinsurance as claimed by Applicant (except for using a "third party" indemnify agent who is not a State Liquidator)."

In contrast to the Examiner's interpretation of McCormack et al., applicants respectfully assert that McCormack fails to disclose paying insolvent insurance company

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liabilities or any aspects of reinsurance payments involving insolvent insurance companies.

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At best, McCormack et al. explain, at column 1, lines 13-41, the need for reinsurance to transfer risk and minimize the possibility of an insurance company becoming insolvent, especially in view of catastrophe-related losses. The focus of the invention of McCormack et al. is a method for an insurance company to identify previously miscoded losses that could be covered under its existing reinsurance agreements. Therefore, McCormack et al. fail to disclose the steps of guaranteeing a fixed dividend to claimants of an insolvent insurance company or transferring at least a portion of the insolvent insurance company's assets in exchange for that guarantee of payment.

check art?

With regard to the use of an Indemnifying Agent, applicants do not disagree with the Examiner's assertions that the use of an agent *per se* is well known. However, applicants do assert that it is not known or obvious to use an agent instead of a State Liquidator for carrying out the steps of guaranteeing a fixed dividend to claimants of an insolvent insurance company or transferring at least a portion of the insolvent insurance company's assets in exchange for that guarantee of payment. These claimed steps are not obvious over the combination of cited prior art which suggest there could be fairer methods of paying out claims against an insolvent estate, but only disclose possible scenarios where the risk of the estate shortfall to pay out to claimants falls on the claimants.

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all refs
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103

In contrast to the cited references and current practice, in the Applicants claimed methods, this risk is transferred from the claimants to the agent or party guaranteeing the payments. Since the risk was not previously borne by the State Liquidator, the claimed

that's what
indemnify
agents do

invention accomplishes a risk transfer beyond the mere transfer of duties from a State Liquidator to an agent. Nowhere in the cited references is this risk transfer suggested. Thus, the claimed invention is not obvious over the combination of cited references and the well-known duties of a State Liquidator.

With regard to State Liquidators, the cited reference, Butler et al., "The International Journal of Insurance Law," pp. 31-32, discloses three options faced by such administrators of the insolvent insurance companies: (1) payment of only the mature liquidated claims before a bar date and leave nothing for immature long-tail claims; (2) allow run-off of an estate over time and maintain assets in the estate to pay of all claims as they mature; or (3) immediate payment of all mature claims based on a liquidated value and immediate payment of all immature claims based on the present value of the claim based on actuarial estimates, for example. In all three of these scenarios, the payment of all claims are not guaranteed at a predetermined dividend or fixed rate, because the value of the insolvent estate is not known as reinsurance obligations are uncollected (and may be held up in court for lengthy periods).

Also, the assets of the insolvent estate are not transferred to another party guaranteeing the payment of the claims, but instead are paid out to the claimants.

For example, in the scenario of option 2 above, operating a run-off of the estate, it is submitted that State Liquidators do not guarantee a predetermined payment rate to all claimants, but instead make payments at a rate contingent on the fluctuating values of the assets and liabilities. In such a run-off with settlement of immature claims as they mature, the insolvent's estate and pending immature claims are subject to reevaluation over time so

need to check secondary ref

Butler is not used to teach the use of State Liquidators. It is used to teach using 3rd party indemnifying agents.

check and?

OK, but this is w/ a range

but state laws allow guaranteed payment of all claims at a predetermined or fixed rate to asset holder by a State Liquidator

the amount of fixed value is up to an individual. I've asserted that one would determine the assets & liability of any company in paying its creditors as in any bankruptcy division.

that the State Liquidator may adjust the payment rate to ensure that the assets in the estate survive to pay future claims. Typically, payments made to past claimants are subject to agreements to repay part of the payouts back to the insolvent insurance company to the extent that the State Liquidator resets the payment rate to a lower percentage rate. But to avoid this need for repayment, the State Liquidators typically offer low payment rates to initial claimants to conservatively preserve the estate. As shown in Table 2 at page 16 of the present application, State Liquidators need to maintain reserves in the estate to be able to meet the same payment rate to all similarly situated claimants should the claims eventually reach the highest remaining Ultimate scenario. Thus, in some respects, the current system is unfair to claimants with early liquidated claims that their share of the insolvent insurance company's assets must remain in the estate to be sure there are adequate reserves to pay all future claimants based on high-end estimates. Consequently, only when the estate is closed decades later can the remaining assets be distributed to all past paid claimants to bring them up to an equal basis.

Although Butler and the other cited references, such as White, suggest that there should be fairer methods for payments to claimants against insolvent insurance companies, none of these references suggest the risk transfer method presently claimed. Indeed, White (8 No. 10 Mealy's Litig. Rep.: Ins. Insolvency 14) proposes a fourth method that involves a combination of options (2) and (3) disclosed by Butler et al., but does not suggest the claimed risk transfer method. The proposed fourth method is to operate the insolvent insurance company as a run-off (option 2) for an initial period of time until the marginal

costs of continuing to administer the estate become relatively excessive, at which point the estate administration method converts to pay all remaining immature claims on the basis of their estimated losses and the remaining value of the estate (option 3).

Thus, looking at the cited references as a whole, they teach away from the applicants claimed invention by teaching specific methods for winding down and paying claims against an insolvent insurance company, where the risk for increased shortfalls in the assets to cover the claims is borne by the claimants. The methods suggested by the cited prior art are at odds with the claimed methods, which require payment of claims at a guaranteed rate in exchange for transfer of the assets to a third party, whereby the risk of shortfalls is transferred away from the claimants to the third party - the so-called third-party Indemnifying Agent. None of the references suggest such a risk transfer or the means to accomplish that as presently claimed. Therefore, independent claims 1, 4, and 10, as well as claims 2-3, 5-9 and 11 depending therefrom, are not obvious over the cited references.

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different
scenarios
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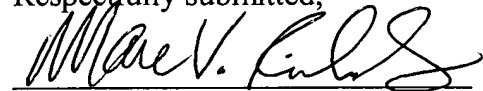
as suggested by
app. risk
transfer to
3P is well
known.

Applicants respectfully submit that the rejections have been overcome in view of the above remarks and that the present claims are in condition for allowance. The Examiner is kindly requested to phone the undersigned to clarify any remaining issues to expedite allowance.

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Appendix A: Version showing markup of additions and deletions

ABSTRACT

[The invention provides a] A method is provided for reinsuring an insolvent Insurance Company's liabilities. The method includes determining the shortfall of the Insurance Company's assets and Reinsurer's obligations to cover underlying claims, determining a guaranteed payment rate of the claims, indemnifying at least a portion of the Insurance Company's liability for the claims at the guaranteed rate, and assigning the assets and Reinsurer's obligations to an Indemnifying Agent.